

## **APPLICATION FOR STATE RECORDS BOARD GRANT TO IMPROVE ACCESS TO PUBLIC INFORMATION**

Agencies desiring grants from the Nebraska State Records Board for projects to improve access to state government information should complete this application and follow any procedures outlined in this application and any accompanying materials.

### **I. Grant Summary**

1. **Name of agency applying for grant:** Department of Revenue
2. **Title or project:** Online Income Tax Filing – 1040N and Schedules II and III
3. **Brief Description of Project:** This grant will support development of the 1040N (long form) and Schedules II and III for online individual income tax filing through Nebrask@ Online. The number of taxpayers eligible file online will increase, allowing more individuals to file online at no cost to them.

Currently, taxpayers eligible to file the 1040NS (EZ) and 1040A (short form with schedules for 1) adjustments increasing/decreasing income and 2) dependent child care expenses) may file online. In addition to expanding the system to include the 1040N, the project will include the electronic check payment module of the Nebrask@ Online Payment Portal. These enhancements will bring the Department closer to our e-government goals for individual income tax filing.

4. **Grant request amount:** \$59,200
5. **Will there be a fee for accessing records associated with this project?** No fees are currently anticipated for these applications beyond convenience fees paid by individual income tax filers to Official Payments Corporation, the vendor that handles online credit card payments for the Department. It is our understanding that processing fees for electronic check payments will be absorbed by the State Treasurer. However, recovery of returned electronic check fees will be the responsibility of the Department (as is the case with paper checks).
6. **If yes, provide any statutory reference or authorization for the fee:** N/A

### **II. Grant Detail**

1. **Please describe the project in detail:**

For the past three years, the Department of Revenue has offered online individual income tax filing through Nebrask@ Online (along with other options through other vendors such as Telefile and various tax preparation providers). Filing for the

1040NS (or 1040EZ) began in 2002, with the 1040A (short form plus schedules for adjustments increasing/decreasing income and dependent child care expenses) offered in 2004.

The proposed project would provide online filing for the 1040N (long form), along with Schedules II (Credit for Tax Paid to Another State, Full Year Residents Only) and III (Computation of Nebraska Tax for Non-Residents and Partial-Year Residents). The project will bring the Department near completion of its online individual income tax filing applications.

The suite of individual income tax filing applications complements other online tax filing systems provided through NOL. These include:

- Sales & Use Tax filing (Form 10), through which retail businesses and others collecting sales tax file monthly or quarterly with the Department. Launched in 2000, this application has generated nearly 100,000 filings through June, 2004. The Department is working with NOL on an upgrade to this application that will provide significant improvements in usability for businesses.
- Income Tax Withholding Filing (Form 941N), through which employers file quarterly payments of income tax withheld from employee paychecks. Launched in 2002, this application has generated nearly 21,000 filings through June, 2004. The Department plans to work with NOL to enhance this application by providing batch filing capability for large businesses.

Through an agreement approved by the State Records Board, NOL is paid 50 cents per filing by the Department as an operational expense (not passed on to the taxpayer). During the first three years, a total of 26,669 filings were processed through the system.

The proposed grant project involves developing a Web front end that captures the information required on Form 1040N and Schedules I & II. Unlike commercial tax preparation software, this system provides no tax advice of any sort. It will, however, guide the user through the data-entry steps, pre-fill selected fields by importing information from Department and IRS files as required, perform basic calculations at appropriate points, and provide error-checking for certain data-entry fields as necessary to help prevent errors.

The system will be completely automated in the sense that data is transferred between NOL and Department systems without manual intervention. This allows pre-filling of certain data fields on the Web form, as well as data import into Department systems. This interaction requires precise specification of data fields and extensive testing to ensure complete and accurate data transfer.

Taxpayers will be provided with a PIN for authentication purposes. The PIN is printed in the annual tax booklet and mailed out in late December. Taxpayers may

also contact the Department to have a PIN assigned if they do not receive a tax booklet. Through a system developed by NOL and the Department in 2002, taxpayers may retrieve a lost PIN by visiting the Department Web site and providing a valid driver license number and partial social security number. Through another system developed by NOL in 2002, taxpayers can check on the processing status of their return and when they can expect to receive any refund due them.

Upon logging in, taxpayers will be asked to respond to a series of questions to determine which, if any, tax applications they are eligible to complete online. Eligibility is based on several factors, including adjusted gross income and federal filing status. Once the taxpayer is determined to be eligible for online filing, they are directed to the appropriate section (1040NS, 1040A or 1040N) and proceed to enter data as required.

Upon completion of data entry, several validation checks are run by the system to ensure the filing is free of errors. The taxpayer is returned to the location of any errors for correction, and once validated, the filing is imported into the Department system for processing if no balance is due or a refund is to be issued.

If there is a balance due, the taxpayer will be directed to a payment options screen that allows payment by electronic check through NOL or by credit card through Official Payments Corporation. Payment information is entered by the taxpayer and submitted, and the filing is imported into the Department system for processing.

Data entered into the system by the taxpayer can be imported is then formatted so that it may be printed for the taxpayer's file. The process is then complete.

- 2. Please describe whom the beneficiary or recipient of this service will be and projected activity for access or use of the proposed service:** Taxpayers who meet eligibility guidelines for filing the Nebraska 1040N will be the beneficiaries of the system. There are an estimated 660,000 taxpayers who would be eligible. This is in addition to the estimated 175,000 taxpayers who are eligible to file the 1040NS or 1040A.
- 3. Timeline for implementation (specific completion date must be provided, grant funds lapse if not expended prior to completion date):** The anticipated launch date for the 1040N is January 15, 2005. The scheduled launch date may be affected by policy changes from the Internal Revenue Service that may impact the Nebraska system, and which are usually not available until November.
- 4. Agency contribution to the project (labor, equipment, etc.):** Department staff will be closely involved in the project at all phases, including development of requirements and system specifications, testing and performance monitoring.
- 5. Has this project every been submitted as a budget request (explain)?** No. Several tax filing applications have been built and maintained by Nebrask@ Online

for the Department over the past several years. These projects have been completed within the existing financial framework of Nebrask@ Online, supplemented by the per-transaction payments made to NOL from the Department's existing operating budget.

6. **Does the project require additional statutory authority (explain)?** No.
7. **Why is the grant money needed for the project, and if applicable, how will the service be sustained once the grant money is expended?**

Grant funds are being sought in recognition of the fact that considerable resources from Nebrask@ Online are required to deliver this (or any) tax filing application. Similar to experience in other states, adoption is expected to grow slowly, and the per-transaction amounts paid to NOL by the Department will not be sufficient in the short run to provide a return to cover development costs. However, transaction-based resources are expected to be sufficient over the long-term to support annual maintenance and upgrades to the application.

8. **Please describe how this project will enhance the delivery of state agency services or access to those services:**

Online tax filing provides numerous benefits to taxpayers as well as the Department. Error-checking features throughout the application eliminate most common mistakes that cause a tax filing to be returned for correction, resulting in refund delays. Direct import of filing information into Department systems speeds processing and allows taxpayers to receive refunds much faster than paper filing. The system is user-friendly, guiding the taxpayer through the various data entry screens. All data and payment information is encrypted, providing sound security for sensitive information.

9. **Please describe and provide supporting documentation for how this project will 1) improve the efficiency of agency operations; 2) facilitate collaboration among state agencies; 3) facilitate collaboration between state agencies and other public institutions; 4) support public/private partnerships in the delivery of public services (you may respond to any or all of these criteria in your answer, attach additional pages if needed):**

- 1) The Department of Revenue has documented cost savings of up to \$2.00 per filing when it is received electronically vs. on paper. Processing, handling and data entry are eliminated, allowing the Department to cut costs by reducing the number of temporary employees required at peak times.
- 2) Certain tax information is made available to other state agencies for enforcement of responsibilities such as child support. The proposed system will provide gains in efficiency, timeliness and accuracy of making this information available to other agencies.
- 3) Considerable information is exchanged between the Department and the Internal Revenue Service. The proposed system will provide gains in

efficiency, timeliness and accuracy of making this information available to the IRS.

- 4) The project continues the long-standing partnership among the Department of Revenue, State Records Board, and Nebraska Interactive. This public/private partnership has yielded many benefits and cost-savings to the Department, delivering a number of online tax filing and other applications in a cost-effective manner.

### **III. Technical Information**

#### **1. Describe the hardware, software, and communications needed for this project and explain why these choices were made:**

Existing hardware and communications networks utilized by Nebrask@ Online and the Department will be used, as there is no anticipated need for additional system resources to implement the projects. Existing tax filing applications developed by NOL will be used as a foundation to the greatest extent possible for each new application, building upon standard modules such as payment processing created for previous projects. Given the unique and complex nature of each tax form, considerable customizing will be necessary for the project's initial development.

#### **2. Address any technical issues with the proposed technology including**

- **Conformity with generally accepted industry standards. Projects which interface with other state systems (such as distance learning systems) should also address NITC technical standards and guidelines.**
- **Compatibility with existing institutional and/or statewide infrastructure.**
- **Reliability, security and scalability (future needs for growth or adaptation).**

The project will be developed following the NOL standard project life cycle process. Each project will utilize the existing state communications network, and will use standard programming modules to the greatest possible extent. Security will be provided using personal identification numbers assigned to each taxpayer, a system that has worked well for prior tax filing applications. Thorough testing of each application will provide the greatest possible reliability, although factors outside the control of the Department or NOL (such as communications networks, user web browser settings, etc.) may impact reliability. Once complete, the system will require annual updates to account for any changes in tax policy that have occurred, but should require little additional maintenance for several years.

3. **Describe how technical support will be provided:** Support for technical aspects of each project will be provided by phone, e-mail and live online help by Nebrask@ Online. The application will also include help screens, and if deemed appropriate, a list of frequently-asked questions. Program support (e.g. tax-related questions) will

be provided by Taxpayer Assistance staff. Contact information for technical and program support will be available on the screens associated with each application.

**IV. Contact person information, signature**

**Contact person for any questions regarding this application**

Mary Jane Egr  
State Tax Commissioner  
301 Centennial Mall South, 2<sup>nd</sup> Floor  
P.O. Box 94818  
Lincoln, NE 68509-4818  
(402) 471-5604  
mjegr@rev.state.ne.us

**Signed this** \_\_\_\_\_ **day of** \_\_\_\_\_, \_\_\_\_\_

**Agency Director** \_\_\_\_\_